

*Financial Report*  
**THE UNIVERSITY OF IOWA**

July 1, 2003 to June 30, 2004



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Office of the Vice President  
for Finance and Operations  
105 Jessup Hall  
Iowa City, Iowa 52242-1316  
319-335-3552  
Fax 319-353-2069

December 31, 2004

President Skorton and Members of the Board of Regents, State of Iowa:

I am pleased to submit the University of Iowa's audited Financial Report for fiscal year 2004. This report presents the financial position and results of operations of the University of Iowa for the fiscal years ended June 30, 2004 and June 30, 2003. New in this report is the inclusion of the State University of Iowa Foundation and other affiliated organizations as required by the Governmental Accounting Standards Board – GASB 39.

Despite a difficult state budget environment over the last several years, the University remains financially sound and stable. Increases in tuition and fees, a robust program of sponsored research, a well managed UI Health Care system, and the success of the UI Foundation's *Good, Better, Best* billion dollar capital campaign have all helped to maintain and improve core educational, research, health care and other service functions. Credit rating agencies continue to comment positively on the University's financial position. Both Moody's and Standard & Poor's have within the last year reaffirmed the University's AA level credit status.

Decentralized decision-making continues to be a hallmark of the University's business process improvement strategy. The University's "workflow" project (electronic, paperless forms processing) has expanded to incorporate routine business transactions in areas such as travel and purchasing and use of departmental charge cards continues to expand. Major and necessary improvements to the UIHC and Faculty Practice Plan billing systems were implemented enabling full compliance with federal HIPAA (Health Insurance Portability and Accountability Act) requirements and better overall management of accounts receivable. Regents-wide initiatives to consolidate and improve a variety of business functions are being undertaken to assure a lean and effective organization.

The Board's plan for institutional transformation and educational excellence developed this past year emphasizes both financial stewardship and programmatic improvements. Renewed public investment coupled with University reallocations will provide incentives to prioritize and reallocate to areas of the most strategic importance at the University. An outcome of this transformational plan will be a moderating and predictable tuition policy for the benefit of Iowa students and their parents.

Infrastructure improvements have continued throughout these past several years. In a matter of eighteen months four academic and academic support buildings constructed with significant private support will come on-line: the Adler Journalism and Mass Communication Building, the Pomerantz Center, the new Art Building and the Carver Biomedical Research Building. UIHC's Center of Excellence in Radiation Oncology will be completed within the next year.

Pursuant to the most recent five-year capital plan and state budget request adopted by the Board of Regents, capital expenditures in the near term will focus on basic infrastructure needs, on renovation of existing General Fund supported buildings and addressing deferred maintenance needs. Excellent examples of this are the Chemistry Building and Art Building remodeling and restoration projects. The highest priority for new construction on the Regents approved capital list for the UI is a new home for the College of Public Health.

The theme of renovation of existing facilities carries over to auxiliary enterprises as well. The very visible Kinnick Stadium renovation project is the largest such project at over \$86 million. Space within the Iowa Memorial Union will be remodeled to better serve students. Planning for a major east campus student recreation center has been authorized by the Board while improvements to student residential and dining facilities are on-going.

The faculty and staff are working thoughtfully and diligently to maintain the trust and goodwill of the people of the state of Iowa. This report reflects on those efforts.

Very truly yours,

Douglas K. True  
Vice President for Finance and  
Operations and Treasurer

# Management's Discussion and Analysis

## INTRODUCTION

The following discussion and analysis of the University of Iowa's financial statements presents an overview of the University's financial activities for the years ended June 30, 2004, 2003 and 2002. This discussion has been prepared by management and should be read in conjunction with the financial statements and related footnotes.

In 2004, the University of Iowa implemented GASB Statement No 39, which requires the University to discretely present, within its own statements, the financial statements of certain component units. The State University of Iowa Foundation (Foundation) is a legally separate, tax-exempt component unit of the University, and accordingly, the Foundation's financial statements are discretely presented with those of the University. However, since the assets of the Foundation are the exclusive property of the Foundation and do not belong to the University, this Management's Discussion and Analysis will focus on the University excluding the Foundation. Additional information regarding the Foundation as a discretely presented component unit is summarized in Note I to the financial statements.

## FINANCIAL HIGHLIGHTS

The University's financial position remained strong at June 30, 2004, with assets of \$2,699 million and liabilities of \$905 million as compared to June 30, 2003 assets of \$2,521 million and liabilities of \$767 million. Net assets, the difference between total assets and total liabilities, increased by \$40.2 million (2.3%) from June 30, 2003 to June 30, 2004. The increase from June 30, 2002 to June 30, 2003 was \$120.1 million (7.3%).

The change in net assets reports the financial results during the fiscal year by measuring the relationship between revenues and expenses. It is important to note that public universities such as the University of Iowa generally report an operating loss, as the financial reporting model classifies state appropriations, investment income and gifts as nonoperating revenues. Operating revenues are received for providing goods and services to the various students, customers and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided. The following table summarizes the financial activity for the fiscal years ended June 30, 2004, 2003 and 2002.

Changes in Net Assets (in millions)			
	2004	2003	2002
		(Restated)	
Total operating revenues	\$ 1,322.7	\$ 1,194.5	\$ 1,147.9
Total operating expenses	1,633.8	1,468.9	1,453.2
Net operating income (loss)	(311.1)	(274.4)	(305.3)
Net nonoperating revenues (expenses)	329.6	373.7	384.3
Income (loss) before other revenues, expenses	18.5	99.3	79.0
Other revenues (expenses)	21.7	20.8	18.0
Increase (decrease) in net assets	40.2	120.1	97.0
Net Assets, beginning of year	1,754.4	1,634.3	1,520.0
Net Assets, end of year	\$ 1,794.6	\$ 1,754.4	\$ 1,617.0

During the fiscal year ended June 30, 2004, the University was able to raise operating revenues by 10.7%; however, operating expenses also increased by 11.2%. After factoring in state appropriations, investment income, gifts and other revenues the University increased net assets \$40.2 million for the year ended June 30, 2004.

During the fiscal year ended June 30, 2004, net nonoperating revenues (expenses) decreased by 11.8% as the result of a decrease in state appropriations of \$14.8 million, a decrease in investment income of \$5.8 million and a



# Management's Discussion and Analysis

decrease in gift income of \$24.7 million that is attributable to a one-time adjustment made in 2003. Gift revenue reported in 2004 is very similar to the gift income reported in 2002.

## USING THIS ANNUAL REPORT

The University's annual report consists of three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. These statements provide information on the University as a whole and present a long-term and short-term view of the University's activities.

## THE STATEMENT OF NET ASSETS AND THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets present the financial position of the University at the end of the fiscal year and report the University's net assets and changes in them during the current fiscal year, respectively. The difference between total assets and total liabilities – net assets – is one indicator of the current financial condition of the University, while the change in net assets over time determines whether the financial health of the University is improving. To assess the overall health of the University, non-financial factors are relevant as well. Such factors include student enrollment, the University's ability to attract and retain qualified faculty and staff and the overall condition of the University's buildings and infrastructure.

These statements are reported under the accrual basis of accounting, all current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid. The following table summarizes the University's assets, liabilities and net assets at June 30, 2004, 2003 and 2002.

Net Assets, End of Year (in millions)			
	2004	2003 (Restated)	2002
<b>Assets:</b>			
Current assets	\$ 1,167.3	\$ 1,120.4	\$ 1,029.1
Capital assets, net	1,433.5	1,320.4	1,200.0
Other noncurrent assets	98.4	80.1	101.8
<b>Total Assets</b>	<b>2,699.2</b>	<b>2,520.9</b>	<b>2,330.9</b>
<b>Liabilities:</b>			
Current liabilities	434.4	356.5	340.2
Noncurrent liabilities	470.2	410.0	373.7
<b>Total Liabilities</b>	<b>904.6</b>	<b>766.5</b>	<b>713.9</b>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	1,052.4	995.1	885.4
Restricted	290.8	248.4	257.6
Unrestricted	451.4	510.9	474.0
<b>Total Net Assets</b>	<b>\$ 1,794.6</b>	<b>\$ 1,754.4</b>	<b>\$ 1,617.0</b>

# Management's Discussion and Analysis

The following table summarizes the University's revenues, expenses and changes in net assets for the years ended June 30, 2004, 2003 and 2002.

Revenues, Expenses and Changes in Net Assets (in millions)			
	2004	2003 (Restated)	2002
<b>Operating Revenues:</b>			
Tuition and fees, net of scholarship allowances	\$ 179.4	\$ 157.3	\$ 130.9
Grants and contracts	299.2	279.5	265.1
Patient services, net of allowances	609.4	567.6	540.9
Sales and services of educational departments	79.6	74.7	64.4
Auxiliary enterprises, net of scholarship allowances	117.2	109.2	104.1
Other operating revenue	37.9	6.2	42.5
<b>Total Operating Revenues</b>	<b>1,322.7</b>	<b>1,194.5</b>	<b>1,147.9</b>
<b>Operating Expenses:</b>			
Instruction	269.3	247.7	266.8
Research	217.1	188.1	191.2
Academic support	71.7	61.2	71.2
Patient services	664.1	585.9	556.4
Depreciation	102.5	89.5	95.4
Auxiliary enterprises	109.0	112.5	96.5
Other operating expenses	200.1	184.0	175.7
<b>Total Operating Expenses</b>	<b>1,633.8</b>	<b>1,468.9</b>	<b>1,453.2</b>
<b>Operating Income (Loss)</b>	<b>(311.1)</b>	<b>(274.4)</b>	<b>(305.3)</b>
<b>Net Nonoperating Revenues (Expenses)</b>			
State appropriations	282.7	297.5	305.1
Investment income, net of investment expenses	28.5	34.3	11.9
Gifts	41.8	66.5	43.7
Interest expense	(15.5)	(14.7)	(13.3)
Gain (loss) on disposal of capital assets	(7.9)	(9.9)	(5.7)
Proceeds from Principal demutualization	-	-	54.1
Principal demutualization proceeds remitted to State	-	-	(11.5)
<b>Net Nonoperating Revenues (Expenses)</b>	<b>329.6</b>	<b>373.7</b>	<b>384.3</b>
<b>Income Before Other Revenues (Expenses)</b>	<b>18.5</b>	<b>99.3</b>	<b>79.0</b>
<b>Net Other Revenues (Expenses)</b>			
Capital appropriations, State	11.2	13.5	11.8
Additions to endowments	1.0	0.2	0.3
Capital contributions and grants	9.5	7.1	5.9
<b>Net Other Revenues (Expenses)</b>	<b>21.7</b>	<b>20.8</b>	<b>18.0</b>
<b>Increase (Decrease) in Net Assets</b>	<b>40.2</b>	<b>120.1</b>	<b>97.0</b>
Net assets, beginning of year	1,754.4	1,634.3	1,520.0
Net assets, end of year	\$ 1,794.6	\$ 1,754.4	\$ 1,617.0

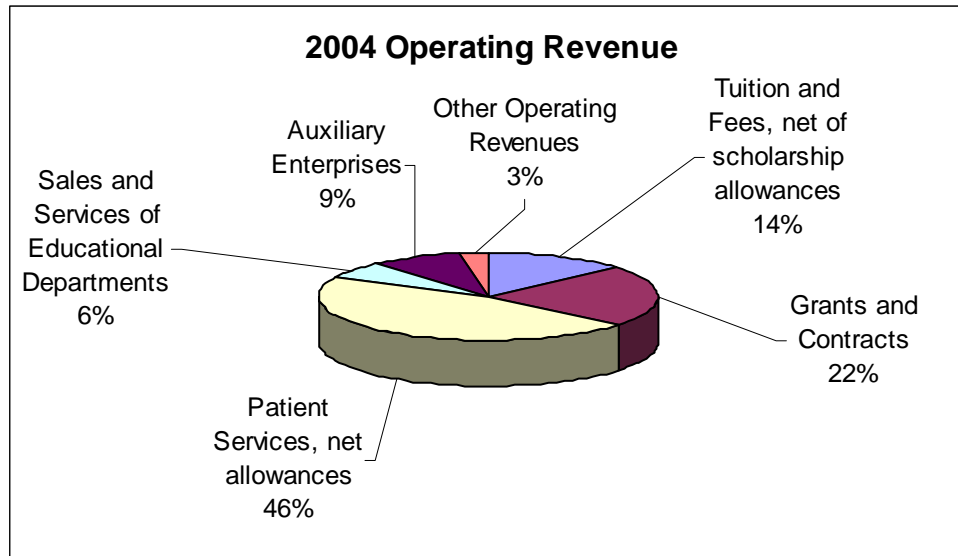
The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in net assets for the fiscal year ended June 30, 2004 of \$40.2 million (2.3%).



# Management's Discussion and Analysis

## OPERATING REVENUES

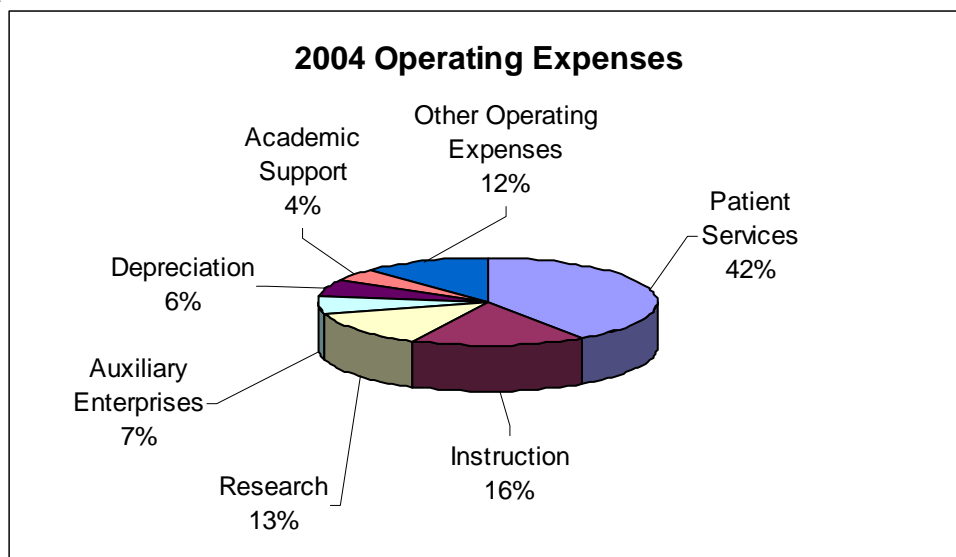
For the fiscal years ended June 30, 2004, 2003 and 2002, operating revenues totaled \$1,323 million, \$1,195 million and \$1,148 million, respectively. There were no significant or unexpected changes in operating revenues. The following is a graphic illustration of revenues by source, which are used to fund the University's operating activities for the year ended June 30, 2004.



The National Institutes of Health (NIH) ranked the University of Iowa 11th among all public universities receiving NIH funding for fiscal year 2003. Grants, contracts and other sponsored agreements revenue exceeded \$299 million in FY 2004 and \$279 million in FY 2003.

## OPERATING EXPENSES

For the fiscal years ended June 30, 2004, 2003 and 2002, operating expenses totaled \$1,634 million, \$1,469 million and \$1,453 million, respectively. There were no significant or unexpected changes in operating expenses. The following is a graphic illustration of the University's operating expenses for the year ended June 30, 2004.





# Management's Discussion and Analysis

Other operating expenses include Public Service (2004, \$44 million; 2003, \$43 million), Student Services (2004, \$24 million; 2003, \$25 million), Institutional Support (2004, \$59 million; 2003, \$66 million), Operation and Maintenance of Plant (2004, \$49 million; 2003, \$29 million), Scholarships and Fellowships (2004, \$21 million; 2003, \$13 million), Student Loan expenses (2004, \$.4 million; 2003, \$.9 million) and other non-classified operating expenses (2004, \$2 million; 2003, \$7 million).

## NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues and expenses netted a positive \$329.6 million for the fiscal year ended June 30, 2004 and a positive \$373.7 million for the fiscal year ended June 30, 2003. State appropriations dropped by \$14.8 million from fiscal year 2003 to fiscal year 2004, a decrease of 5.0%.

The University invests its endowments in accordance with the Board of Regents, State of Iowa (Regents) policies to maximize total return over the long term, with an appropriate level of risk. The success of this long-term investment strategy is evidenced by strong returns over sustained periods of time and the University's ability, in the face of the current challenging markets, to limit losses. Any reduction in the fair value of the endowment portfolio will not have a significant, immediate impact on the portion of investment income available to support current year operating expenses since the University makes such distributions pursuant to its spending rate policy as described in Note II to the financial statements. For the current fiscal year, the University recorded a net unrealized gain on investments of \$6.7 million. This compares to the unrealized gain of \$10.2 million in the prior year.

The following table summarizes the University's nonoperating revenues and expenses for the years ended June 30, 2004, 2003 and 2002.

Nonoperating Revenues and Expenses (in millions)			
	2004	2003	2002
State appropriations	\$ 282.7	\$ 297.5	\$ 305.1
Gifts	41.8	66.5	43.7
Investment income, net of investment expense	28.5	34.3	11.9
Interest expense	(15.5)	(14.7)	(13.3)
Gain (loss) on disposal of capital assets	(7.9)	(9.9)	(5.7)
Proceeds from Principal demutualization	-	-	54.1
Principal demutualization proceeds remitted to State	-	-	(11.5)
Total Nonoperating Revenues and Expenses	\$ 329.6	\$ 373.7	\$ 384.3

Not included, by definition, as nonoperating revenues and expenses are state appropriations for capital projects, additions to endowments and contributions and grants for capital projects. The University saw an increase in these other revenues from \$20.8 million for the year ended June 30, 2003 to \$21.7 million for the year ended June 30, 2004, with an increase in additions to endowments of \$0.8 million and an increase in capital contributions and grants of \$2.4 million.





# Management's Discussion and Analysis

## STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information regarding the University's cash receipts and disbursements during the fiscal year. This provides an assessment of the University's ability to generate net cash flows and meet obligations as they come due. The following table summarizes the University's cash flow for the years ended June 30, 2004, 2003 and 2002.

Cash Flows for the Year (in millions)			
	2004	2003	2002
	(Restated)		
Cash provided (used) by:			
Operating activities	\$ (128.4)	\$ (246.0)	\$ (188.0)
Noncapital financing activities	287.4	334.4	389.8
Capital and related financing activities	(144.0)	(162.7)	(157.7)
Investing activities	(24.9)	35.5	43.3
Net change in cash	(9.9)	(38.8)	87.4
Cash & cash equivalents, beginning of the year	210.3	249.1	161.7
Cash & cash equivalents, end of the year	\$ 200.4	\$ 210.3	\$ 249.1

The University's overall liquidity declined during the year, with a net decrease to cash and cash equivalents of \$9.9 million. But cash and cash equivalents has increased over the last 4 years by \$38.7 million

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The following table summarizes the University's capital assets, net of depreciation, as of June 30, 2004, 2003 and 2002.

Capital Assets, Net of Depreciation (in millions)			
	2004	2003	2002
	(Restated)		
Land, nondepreciable	\$ 17.6	\$ 17.0	\$ 14.8
Construction in progress, nondepreciable	159.3	113.0	116.3
Art & historical collections, nondepreciable	28.0	27.8	27.5
Library materials, nondepreciable	171.5	161.0	151.5
Land improvements, net	6.6	5.1	5.7
Infrastructure, net	122.1	122.2	121.3
Buildings, net	731.5	690.0	595.8
Equipment, net	196.9	184.3	167.1
Total Capital Assets, Net	\$ 1,433.5	\$ 1,320.4	\$ 1,200.0

# Management's Discussion and Analysis

Several major construction projects are underway to improve the delivery of educational and placement services to students at the University of Iowa. The new Blank Honors Center opened in early 2004. The building houses the University Honors Program and the nationally renowned Belin-Blank International Center for Gifted Education and Talent Development Program. Construction continues on the Pomerantz Center that in addition to career development and placement offices will include the Admissions Visitor Center, Academic Advising and the Alumni Career Information Network. Construction has also began on the Art Building and the Adler Journalism and Mass Communication Building. The Art Building will be home to the School of Art and Art History. The Journalism Building will house the School of Journalism and Mass Communications, Cinema and Comparative Literature Department and the student run newspaper, "The Daily Iowan". The University of Iowa Hospital and Clinics is constructing a new Center of Excellence in Image-Guided Radiation Therapy, scheduled for completion in 2005 that will house today's most advanced radiation therapy technologies, including the world's first completely image- and optic-guided stereotactic radiation delivery systems. In addition, the University is enhancing its investment in research facilities by constructing the new 131,500 square foot Carver Biomedical Research Facility.

Additional information about the University's capital assets is presented in Note IV to the financial statements.

## *Debt*

As of June 30, 2004, the University had \$424.1 million in outstanding bonds, notes and capital leases, an increase of \$57.0 million from the prior year. Debt principal payments of \$44.7 million with interest payments of \$16.5 million were made during the year ended June 30, 2004. The following table summarizes outstanding debt by type as of June 30, 2004, 2003 and 2002.

Bonds, Notes and Capital Leases (in millions)			
	2004	2003	2002
Revenue bonds	\$315.6	\$264.1	\$261.8
Notes	2.3	3.3	3.5
Capital leases	106.2	99.7	67.2
Total Debt Outstanding	\$424.1	\$367.1	\$332.5

During the year, \$89 million of new revenue bonds were issued. The revenue bond proceeds of \$72.9 million are being used to finance the construction and equipping of facilities for the Telecommunications, Parking and Utilities Systems at the University. To take advantage of lower interest rates, the University issued \$16.1 million of bonded debt during the year that was used to redeem earlier bond issues. The University realized an economic gain of \$1.0 million and a decrease in aggregate debt service of \$0.9 million from these debt defeasance transactions. The University continues to carry an Aa2 institutional bond rating from Moody's and AA- rating from Standard & Poors. Additional information related to the University's long-term liabilities is presented in Note V to the financial statements.

## **ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE**

As a result of on-going economic pressures affecting the State, fiscal year 2004 state appropriations were reduced by \$17.1 million. Regents approved in November 2002, a 19.1% increase for Fall 2003 resident student tuition and mandatory fees, which remains the lowest among Big Ten universities. The Regents approved in November 2003, an 8.0% increase for Fall 2004 resident tuition and mandatory fees. Even with the significant increase in tuition and fees during the 2003-04 and 2004-05 academic years, the University of Iowa has strived to maintain tuition and fees that are affordable to its students.



# Management's Discussion and Analysis

The University of Iowa continues to have significant appeal to prospective students. Enrollments have been increasing over the last several years, with the 2002-03 academic year witnessing the largest freshmen class in history. Enrollments were up for both resident and non-resident students. The University improved its selectivity ratio in accepting students into the University. This occurred in a year in which a record number of students applied for admission to the University. As a result, the Fall 2004 freshmen class numbers are down slightly from Fall 2003 but still approach record level freshmen enrollment.

The University announced in July 2003 that sponsored programs and other external awards surpassed \$352 million, the largest in University history. The completion of new research labs and related infrastructure improvements will enable the University's researchers to be more productive and better positioned to compete for external grants and contracts.

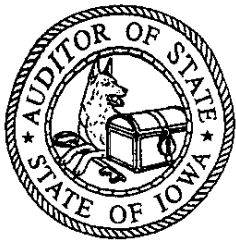
A major capital fundraising campaign is underway and is expected to conclude on December 31, 2005. The original goal of \$750 million was raised to \$850 million when the official public announcement was made in the Spring of 2002. The goal was raised once again in the Spring of 2004 to \$1 billion.

The University continues to pursue its long-term investment strategy to maximize total returns, at an appropriate level of risk, while maintaining its spending rate policies to insulate the University's investments from temporary market volatility.

In spite of recent economic hardships resulting from reductions in state appropriations, the University remains in a stable and positive financial position. Future challenges will be countered with cost containment, internal reallocation, and revenue initiatives that will protect the quality of the academic and research programs offered at the University of Iowa.

## **CONTACTING THE UNIVERSITY OF IOWA'S FINANCIAL MANAGEMENT**

This financial report is designed to provide users with a general overview of the University of Iowa's finances and to demonstrate the University's accountability for the funds received. Questions regarding this report, or requests for additional financial information, should be directed to the Controller's Office, University of Iowa, Jessup Hall, Iowa City, IA 52242.



OFFICE OF AUDITOR OF STATE  
STATE OF IOWA

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report

To the Members of the Board of  
Regents, State of Iowa:

We have audited the accompanying statement of net assets, and the related statements of revenues, expenses and changes in net assets and cash flows, of the State University of Iowa, Iowa City, Iowa, (University of Iowa) and its discretely presented component unit as of and for the years ended June 30, 2004 and 2003. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit, State University of Iowa Foundation, discussed in Note I, which represents 100% of the assets and revenues of the discretely presented component unit. We also did not audit the financial statements of the blended component units, Iowa Measurement Research Foundation and Miller Endowment, Incorporated, discussed in Note I, which represent 1.4% and .2%, respectively, of the assets and revenues of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented and blended component units, is based on the reports of the other auditors.

We conducted our audits in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits and the reports of other auditors provide a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the University of Iowa are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the financial reporting entity of the State of Iowa that is attributable to the transactions of the University of Iowa. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2004 and 2003 and the changes in its financial position and its cash flows for the years ended June 30, 2004 and 2003 in conformity with U.S. generally accepted accounting principles.

In our opinion, based upon our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Iowa at June 30, 2004 and 2003, and the respective changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As described in Note I, during the year ended June 30, 2004, the University of Iowa adopted Governmental Accounting Standards Board Statement No. 39, Determining Whether Certain Organizations Are Component Units.



Management's Discussion and Analysis on pages 2 through 9 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

The report on the University of Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants required by Government Auditing Standards will be issued under separate cover. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

December 17, 2004



**Statement of Net Assets**

June 30, 2004 (in 000s)

(with comparative statement as of June 30, 2003)

<b>ASSETS</b>	2004	2003
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 161,803	\$ 178,145
Restricted cash and cash equivalents	35,324	30,337
Investments	651,742	602,422
Restricted investments	6,564	6,088
Deposits with trustees	28,349	11,784
Accounts receivable, net	211,206	227,228
Notes receivable, current portion, net	4,183	4,155
Interest receivable	1,679	2,434
Due from government agencies	37,959	31,203
Inventories	25,664	24,969
Prepaid expenses and other current assets	2,857	1,728
<b>Total current assets</b>	<b>1,167,330</b>	<b>1,120,493</b>
<b>Noncurrent Assets:</b>		
Restricted cash and cash equivalents	3,327	1,863
Restricted investments	41,208	25,552
Notes receivable, noncurrent portion, net	32,791	33,032
Capital assets, net	1,433,485	1,320,358
Investment in wholly owned subsidiary	21,061	19,628
<b>Total noncurrent assets</b>	<b>1,531,872</b>	<b>1,400,433</b>
<b>TOTAL ASSETS</b>	<b>2,699,202</b>	<b>2,520,926</b>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts payable	64,948	51,055
Salaries and wages payable	97,143	49,607
Unpaid claims liabilities	19,267	14,801
Interest payable	8,189	7,156
Long term debt, current portion	29,354	28,324
Other long term liabilities, current portion	84,885	79,020
Deposits held in custody for others	130,588	126,573
<b>Total current liabilities</b>	<b>434,374</b>	<b>356,536</b>
<b>Noncurrent Liabilities:</b>		
Long term debt, noncurrent portion	394,776	338,747
Other long term liabilities, noncurrent portion	75,418	71,246
<b>Total noncurrent liabilities</b>	<b>470,194</b>	<b>409,993</b>
<b>TOTAL LIABILITIES</b>	<b>904,568</b>	<b>766,529</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	1,052,437	995,095
Restricted:		
Nonexpendable	65,544	61,158
Expendable	225,265	187,222
Unrestricted	451,388	510,922
<b>TOTAL NET ASSETS</b>	<b>\$ 1,794,634</b>	<b>\$ 1,754,397</b>

The accompanying notes are an integral part of these financial statements.



**Statement of Revenues, Expenses and Changes in Net Assets**

for the year ended June 30, 2004 (in 000s)

(with comparative statement for the year ended June 30, 2003)

<b>OPERATING REVENUES</b>	2004	2003
Student tuition & fees, net of scholarship allowances of \$50,664 and \$45,708 for the years ended June 30, 2004 and 2003, respectively (pledged as payment on revenue bonds)	\$ 179,382	\$ 157,333
Federal grants and contracts	261,594	243,365
State and other governmental grants and contracts	5,765	6,888
Nongovernmental grants and contracts	31,871	29,235
Patient services, net of write-offs, contractual adjustments and indigent care of \$551,121 and \$431,714 for the years ended June 30, 2004 and 2003, respectively (pledged as payment on revenue bonds)	609,438	567,617
Sales and services of educational departments	79,594	74,750
Interest on student loans	1,058	1,140
Auxiliary enterprises, net of scholarship allowances of \$4,406 and \$4,101 for the years ended June 30, 2004 and 2003, respectively (pledged as payment on revenue bonds)	117,167	109,192
Other operating revenue	36,817	5,011
<b>Total Operating Revenues</b>	<b>1,322,686</b>	<b>1,194,531</b>
<b>OPERATING EXPENSES</b>		
Instruction	269,294	247,689
Research	217,118	188,106
Public service	43,775	42,831
Academic support	71,735	61,179
Patient services	664,129	585,958
Student services	24,017	25,295
Institutional support	59,341	66,176
Operation and maintenance of plant	49,155	28,800
Scholarships and fellowships	21,161	12,860
Depreciation	102,524	89,496
Student loan write-offs, collection and administration	446	899
Auxiliary enterprises	109,024	112,480
Other operating expenses	2,040	7,143
<b>Total Operating Expenses</b>	<b>1,633,759</b>	<b>1,468,912</b>
<b>Operating Income (Loss)</b>	<b>(311,073)</b>	<b>(274,381)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	282,703	297,459
Investment income (loss), net of investment expenses of \$1,310 and \$1,309 for the years ended June 30, 2004 and 2003, respectively	28,548	34,307
Gifts	41,793	66,502
Interest expense	(15,509)	(14,664)
Gain (loss) on disposal of capital assets	(7,905)	(9,883)
<b>Net Nonoperating Revenues (Expenses)</b>	<b>329,630</b>	<b>373,721</b>
<b>Income Before Other Revenues (Expenses)</b>	<b>18,557</b>	<b>99,340</b>
Capital appropriations, State	11,203	13,510
Additions to endowments	995	181
Capital contributions and grants	9,482	7,098
<b>Net Other Revenues (Expenses)</b>	<b>21,680</b>	<b>20,789</b>
<b>Increase (Decrease) in Net Assets</b>	<b>40,237</b>	<b>120,129</b>
<b>NET ASSETS</b>		
Net assets, beginning of year, restated	1,754,397	1,634,268
Net assets, end of year	<b>\$ 1,794,634</b>	<b>\$ 1,754,397</b>

The accompanying notes are an integral part of these financial statements.





**Statement of Cash Flows**

for the year ended June 30, 2004 (in 000s)

(with comparative statement for the year ended June 30, 2003)

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>2004</b>	<b>2003</b>
Tuition and fees	\$ 177,658	\$ 163,201
Patient receipts	670,713	493,427
Grants and contracts	304,661	282,889
Payments for salaries and benefits	(930,041)	(872,662)
Payments for goods and services	(540,108)	(471,700)
Scholarships	(515)	(176)
Loans issued to students	(8,117)	(9,926)
Collections of loans from students	7,024	7,924
Interest on loans to students	1,755	1,114
Sales of educational activities	72,168	74,245
Other receipts (payments)	105,269	86,710
Auxiliary enterprise receipts	122,070	116,224
Auxiliary enterprise payments	(110,936)	(117,241)
<b>Net Cash (Used) by Operating Activities</b>	<b>(128,399)</b>	<b>(245,971)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	282,006	297,459
Proceeds from noncapital gifts	41,793	39,647
Funds held for others receipts	243,348	301,839
Funds held for others payments	(268,851)	(291,723)
William D. Ford Direct Lending & Plus Loans receipts	126,383	116,313
William D. Ford Direct Lending & Plus Loans made	(125,871)	(115,733)
Other Noncapital Receipts (Payments)	(11,392)	(13,359)
<b>Net Cash Provided by Non-Capital Financing Activities</b>	<b>287,416</b>	<b>334,443</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(193,417)	(160,341)
Interest paid on capital debt and leases	(16,542)	(14,428)
Proceeds from sale of capital assets	511	1,344
Capital appropriations	12,050	5,900
Capital gifts and grants received	9,482	7,098
Principal paid on capital debt and leases	(44,703)	(44,564)
Proceeds from capital debt and leases	88,642	42,265
<b>Net Cash (Used) by Capital &amp; Related Financing Activities</b>	<b>(143,977)</b>	<b>(162,726)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and dividends on investments	19,829	27,871
Proceeds from sale and maturities of investments	104,087	276,759
Purchase of investments	(148,847)	(269,124)
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>(24,931)</b>	<b>35,506</b>
<b>Net (Decrease) in Cash &amp; Cash Equivalents</b>	<b>(9,891)</b>	<b>(38,748)</b>
Cash & Cash Equivalents, beginning of year, restated	210,345	249,093
Cash & Cash Equivalents, end of year	<b>\$ 200,454</b>	<b>\$ 210,345</b>



**Statement of Cash Flows**

for the year ended June 30, 2004 (in 000s)

(with comparative statement for the year ended June 30, 2003)

**RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE**

<b>STATEMENT OF NET ASSETS:</b>	<b>2004</b>	<b>2003</b>
Cash and cash equivalents in current assets	\$ 161,803	\$ 178,145
Current restricted cash and cash equivalents	35,324	30,337
Noncurrent restricted cash and cash equivalents	3,327	1,863
Total cash and cash equivalents, restated	<u>\$ 200,454</u>	<u>\$ 210,345</u>

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED**

<b>IN OPERATING ACTIVITIES:</b>	<b>2004</b>	<b>2003</b>
Operating income (loss)	\$ (311,073)	\$ (274,381)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation expense	102,524	89,496
Changes in operating assets and liabilities:		
Accounts receivable, net	20,197	(62,824)
Inventories	(695)	1,166
Prepaid expenses and other current assets	(1,123)	(1,354)
Due from government agencies, net of receivable from State for capital appropriations	(7,595)	(6,158)
Notes receivable, net	512	(567)
Accounts payable	12,137	(7,063)
Salaries and wages payable	47,536	5,320
Deferred revenue	1,733	5,737
Compensated absences	3,855	5,060
Early retirement benefits	3,593	(403)
Net cash (used) by operating activities	<u>\$ (128,399)</u>	<u>\$ (245,971)</u>

**SIGNIFICANT NONCASH TRANSACTIONS**

Assets acquired under capital leases	\$ 17,791	\$ 36,594
Assets acquired by gift	464	1,010
Assets acquired under notes payable	-	700

The accompanying notes are an integral part of these financial statements.



**Balance Sheet**

June 30, 2004 (in 000s)

(with comparative statement as of June 30, 2003)

ASSETS	2004	2003
Cash and cash equivalents	\$ 31,542	\$ 36,886
Receivables		
Pledges, at net present value, less allowance for losses	73,103	82,589
Other, primarily accrued investment income	285	260
	<u>73,388</u>	<u>82,849</u>
Prepaid expenses	<u>231</u>	<u>338</u>
Investments		
Carried at fair value:		
U.S. Government and governmental agency securities	9,172	9,653
Corporation stocks, primarily common stocks	2,956	3,130
Managed separate investment accounts, primarily equity securities	542,380	460,349
Assets in living trusts, testamentary trusts, and gift annuities	59,721	53,910
Beneficial interest in perpetual trusts	10,317	9,235
Other:		
The University of Iowa Facilities Corporation	1,204	1,118
Ascend Technologies, Inc.	408	418
Real estate	1,540	1,540
Other	5,270	2,158
	<u>632,968</u>	<u>541,511</u>
Leasehold interest, equipment and software, net	<u>23,904</u>	<u>24,913</u>
	<u>\$ 762,033</u>	<u>\$ 686,497</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and other accrued expenses	899	1,874
Accrued vacations	863	913
Annuity and life income obligations	29,676	27,797
Capital lease obligation	10,790	11,685
Amounts held on behalf of others	64,918	58,425
Total liabilities	<u>\$ 107,146</u>	<u>\$ 100,694</u>
Net Assets		
Unrestricted	24,368	22,648
Temporarily restricted	353,932	313,972
Permanently restricted	276,587	249,183
Total net assets	<u>654,887</u>	<u>585,803</u>
	<u>\$ 762,033</u>	<u>\$ 686,497</u>

The accompanying notes are an integral part of these financial statements.



**The State University of Iowa Foundation**  
**Statement of Activities**  
for the year ended June 30, 2004 (in 000s)  
(with comparative statement for the year ended June 30, 2003)

		Temporarily	Permanently	2004	2003
	Unrestricted	Restricted	Restricted	Total	Total
<b>SUPPORT AND REVENUE:</b>					
Total contributions raised	\$ 145	\$ 25,646	\$ 27,991	\$ 53,782	\$ 54,599
Special purpose non-gift receipts	100	1,517	-	1,617	1,527
	245	27,163	27,991	55,399	56,126
Change in value of split-interest agreements	-	3,595	1,082	4,677	(922)
Less amounts raised on behalf of others	-	(812)	(2,589)	(3,401)	(11,041)
Total contributions and change in value of split-interest agreements	245	29,946	26,484	56,675	44,163
Investment income:					
Interest and dividends	816	5,103	-	5,919	7,880
Asset based management and service fees	7,463	(7,227)	-	236	289
Net appreciation in fair value of investments	2,751	73,817	-	76,568	6,111
	11,030	71,693	-	82,723	14,280
Less amounts attributed to others	-	(8,700)	-	(8,700)	(1,469)
Total investment income	11,030	62,993	-	74,023	12,811
Other revenue:					
Equity in net income of The University of Iowa Facilities Corporation	86	-	-	86	17
Equity in net (loss) of Ascend Technologies, Inc.	(10)	-	-	(10)	(62)
Fundraising service revenue	6,260	-	-	6,260	3,370
Total other revenue	6,336	-	-	6,336	3,325
Net assets released from restrictions and changes in donor restrictions	52,059	(52,979)	920	-	-
Total support and revenue	69,670	39,960	27,404	137,034	60,299
<b>EXPENDITURES AND DEDUCTIONS ON BEHALF OF THE STATE UNIVERSITY OF IOWA AND ITS AFFILIATES:</b>					
Programs and expense disbursements:					
Student financial aid	8,045	-	-	8,045	7,593
Faculty and staff support	3,691	-	-	3,691	5,219
Research	5,321	-	-	5,321	7,914
Capital/equipment	14,116	-	-	14,116	17,374
Fellowships	1,334	-	-	1,334	1,255
Professorships	1,633	-	-	1,633	1,151
Faculty chairs	2,294	-	-	2,294	2,015
Program Support	16,848	-	-	16,848	10,706
Fundraising	3,152	-	-	3,152	3,711
Management and service fees	1,327	-	-	1,327	152
	57,761	-	-	57,761	57,090
Less amounts incurred on behalf of others	5,702	-	-	5,702	(5,188)
	52,059	-	-	52,059	51,902
Operating expenses	15,891	-	-	15,891	16,641
Total expenses	67,950	-	-	67,950	68,543
Change in net assets	1,720	39,960	27,404	69,084	(8,244)
Net assets, beginning of year	22,648	313,972	249,183	585,803	594,047
Net assets, end of year	\$ 24,368	\$ 353,932	\$ 276,587	\$ 654,887	\$ 585,803

The accompanying notes are an integral part of these financial statements.

## I. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Organization

The State University of Iowa (University), located in Iowa City, Iowa, is a coeducational university owned and operated by the State of Iowa (State) under the supervision of the Board of Regents, State of Iowa (Board of Regents). The University was established by the First General Assembly on February 25, 1847, and has been in continuous operation since classes began in 1855.

The University is classified as a state instrumentality under Internal Revenue Code Section 115 and it is exempt from federal income taxes. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

### Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB).

Under GASB Statements No. 34 and No. 35, the basic financial statements are the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. These statements represent the University as a whole. Previously, the financial statements focused on the accountability of individual fund groups. These GASB Statements establish standards for external financial reporting for public colleges and universities and require that resources be classified for accounting and reporting purposes into four net asset categories:

- Invested in capital assets, net of related debt—Capital assets, net of accumulated depreciation and reduced by outstanding debt attributable to the acquisition, construction, or improvement of those assets.
- Restricted, nonexpendable—Net assets subject to externally imposed constraints in which the donors or other outside sources have stipulated as a condition that the principal is to be retained in perpetuity. Such assets include the University's permanent endowments.
- Restricted, expendable—Net assets whose use by the University is subject to externally imposed constraints that can be fulfilled by actions of the University pursuant to those constraints or that expire by the passage of time.
- Unrestricted—Net assets not subject to externally imposed constraints and may be used by the governing board to meet current obligations for any purpose. Unrestricted net assets are derived from student tuition and fees, state appropriations, and sales and services of auxiliary enterprises and are generally designated for academic, research and capital programs or to meet contractual obligations of the University.

When an expense is incurred in which both unrestricted and restricted net assets are available, the University's policy is to first apply the expense against the restricted, and then toward the unrestricted asset.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, provided that such pronouncements do not conflict or contradict GASB pronouncements. The University has elected not to apply all FASB Statements and Interpretations issued after November 30, 1989.



## Financial Reporting Entity

A separate report is prepared for the State that includes all funds, departments, agencies and universities over which the State exercises or has the ability to exercise oversight authority. The University is included in these financial statements of the State.

The University's financial statements include schools, colleges and departments, the University of Iowa Health Center (UIHC), the Iowa Medical Mutual Insurance Company (IMMIC, a captive insurance company) and certain affiliated operations determined to be a part of the University's financial reporting entity. The University has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the University are such that exclusion would cause the University's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the University to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to or impose specific financial burdens on the University. In May, 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This statement, which amends GASB Statement No. 14, *The Financial Reporting Entity*, has been implemented for the year ended June 30, 2004. The GASB classification of these entities for the University's financial reporting purposes does not affect their respective legal or organizational relationships to the University.

As required by United States generally accepted accounting principles (GAAP), these financial statements present the University and its component units. These component units are included in the University's reporting entity because of the significance of their operational or financial relationships with the University. These component units are separate legal entities from the University, but are so intertwined with the University that they are, in substance, the same as the University.

## Blended Component Units

The Iowa Measurement Research Foundation and Miller Endowment, Incorporated are included in the reporting entity as blended component units. These legally separate entities are included in the University's financial reporting entity because of the nature of their relationship to the University. The most recently audited financial statements of each of these entities may be obtained from the Controller's Office at the University.

## Discretely Presented Component Unit

The State University of Iowa Foundation (Foundation) is a legally separate, tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. Although the University does not control the Foundation or the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. During the year ended June 30, 2004, the Foundation distributed and expended \$52,059,000 on behalf of the University for both restricted and unrestricted purposes.

The Foundation is a nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Statements for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made

# Notes to Financial Statements

June 30, 2004

to the Foundation's financial information in the University's financial reporting entity for these differences.

The Foundation acts as an agent for other organizations benefiting the University of Iowa. Since the Foundation is not considered to be financially interrelated to these organizations as defined by SFAS No. 136, the total amount of funds held on behalf of these organizations has been reflected as a liability on the balance sheet (Amounts held on behalf of others). The Foundation does not have variance power to re-direct the assets held for others and the funds are generally payable on demand. On the statement of activities, the Foundation reports the gross amounts of support, revenue and expenses with the amount raised and expended on behalf of these organizations shown as a reduction in the gross amounts of support, revenue and expenses.

Assets held on behalf of these organizations include remainder interests in trust, pledges and investments, which are for the benefit of the University.

The following table identifies these legally separate, tax-exempt organizations:

	Amounts Held on Behalf of Others (in thousands)
Iowa Law School Foundation	\$ 50,542
Iowa Scholarship Fund	6,724
University of Iowa Alumni Association	5,198
Others	2,454
Total	<u>\$ 64,918</u>

Although the University is the exclusive beneficiary of the Foundation, the Foundation is independent of the University in all respects. The Foundation is not a subsidiary or affiliate of the University and is not directly or indirectly controlled by the University. Moreover, the assets of the Foundation are the exclusive property of the Foundation and do not belong to the University. The University is not accountable for, and does not have ownership of, any of the financial and capital resources of the Foundation. The University does not have the power or authority to mortgage, pledge, or encumber the assets of the Foundation. The Board of Directors of the Foundation are entitled to make all decisions regarding the business and affairs of the Foundation, including, without limitation, distributions made to the University. Third parties dealing with the University should not rely upon the financial statements of the Foundation for any purpose without consideration of all of the foregoing conditions and limitations.

Complete financial statements for the Foundation can be obtained from The University of Iowa Foundation, One West Park Road, P.O. Box 4550, Iowa City, Iowa 52240, Attn: Controller.

## Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in Business Type Activity as defined in GASB Statement No. 35. Accordingly, the financial statements of the University have been prepared using the economic resources measurement focus and the accrual basis of accounting. As a result, revenues are recognized when earned, expenses are recorded when an obligation is incurred and all significant intra-agency transactions have been eliminated.





## **Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. However, as permitted by GASB standards, cash equivalents held in Deposits with Trustees are treated as investments.

## **Investments (University)**

Investments are reported at fair value in accordance with GASB Statements No. 31 and No. 34. Changes in unrealized gain (loss) on the carrying value of the investments are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Assets.

## **Investments (Foundation)**

Investments are carried at fair value. The fair value of the investments in bonds, corporate stocks, mutual funds and investment management funds is based upon quoted values on national securities exchanges. For limited partnerships where the quoted market prices are not available, fair values are based on information provided by the general partners, which includes quoted market prices for investments when available and estimates of the fair value of investments which are not readily ascertainable.

## **Pledges Receivable (Foundation)**

Pledges receivable are recorded at their net present value using a discount rate of five percent, less an allowance for uncollectible pledges. The provision for losses on uncollectible pledges is an adjustment to contributions at the time the pledge is made. Pledges written off totaled \$24,000 and \$125,000 in the years ended 2004 and 2003, respectively.

## **Inventories**

Inventories, primarily made up of expendable materials and supplies held for consumption, are valued using the lower of cost or market, with cost determined on the first-in, first-out or weighted average basis.

## **Capital Assets**

Capital assets estimated to have a useful life greater than one year are stated at cost at the date of acquisition or estimated fair market value at date of receipt in the case of gifts. For equipment, capital assets costing greater than \$2,000 and with an estimated life of greater than one year are capitalized. Routine repairs and maintenance costs are expensed as incurred. Capitalization of interest on assets under construction has not been included in the cost of those assets as the interest cost of such construction has been offset by interest earned on investment of the debt proceeds during the construction period. Depreciation of capital assets is calculated using the straight-line method over the estimated useful lives (five to fifty years) of the respective assets.

## **Wholly Owned Subsidiary (University)**

The University owns all of the outstanding stock of Musser-Davis Land Company (acquired by gift) and reports such ownership as a wholly owned subsidiary. The Company's operations consist primarily of leasing mineral rights to others and planting seedlings to be harvested by others. The Company's fiscal year ends December 31 and its financial statements are presented on a modified cash basis of accounting. As of December 31, 2003, assets (including investments of \$19,342,000) totaled \$21,282,000; liabilities were \$221,000; and net assets were \$21,061,000. As of December 31, 2002, assets (including investments of \$21,666,000) totaled \$23,689,000; liabilities were \$4,061,000; and net assets were \$19,628,000.



## **Investments in Subsidiaries (Foundation)**

The University of Iowa Facilities Corporation ("Corporation") is an affiliate of the Foundation because the Foundation elects the Corporation's Board of Directors. The Corporation is organized to assist the Foundation in its programs which support the University. The Corporation accomplishes this objective by acquiring and holding property for the benefit and use of the University. The Corporation may incur debt obligations, either through the issuance of bonds or incurring commercial mortgages, for the purchase of properties. Simultaneously, the Corporation leases these buildings to the University of Iowa. The lease agreements provide for the University of Iowa to service the debt and pay for expenses related to the facilities. The leases also provide for the Corporation to convey the title of the facilities to the University of Iowa at the end of each lease term when the debt agreements are fully amortized.

Since the Corporation has not and will not have an economic interest in the outstanding bonds, the asset and the related debt and revenue and expenses related to the asset are not recorded on the financial statements of the Corporation.

The Corporation also acquires and holds real estate, which will ultimately be deeded to the University of Iowa after a period of time. These assets are recorded on the Corporation's books.

Ascend Technologies, Inc. ("Ascend") is a wholly owned subsidiary of the Foundation. Substantially all the assets of Ascend were sold during the year ended June 30, 2002, and Ascend is no longer actively engaged in business.

The assets and net income (loss) of the subsidiaries described above are not material to the financial statements and the Foundation uses the equity method of accounting for its investment in these controlled corporations.

## **Bond Issuance Costs**

Bond issuance costs are expensed in the year the bonds are sold.

## **Deferred Revenue**

Deferred revenue includes advance tickets sales, student tuition related to a future fiscal year and amounts received from rents, grants and contracts that have not yet been earned.

## **Compensated Absences Payable**

University employees accumulate vacation and sick leave under the provisions of Chapters 79 and 262 of the Code of Iowa. It is the policy of the State to liquidate these accrued benefits under specific circumstances. The State pays for accrued vacation at 100% of the employee's hourly rate upon retirement, death or termination and, with certain exceptions, for accrued sick leave at 100% of the hourly rate to a maximum of \$2,000 upon retirement.

## **Long Term Debt and Other Long Term Liabilities**

Long term debt includes principal amounts of revenue bonds payable, notes payable and capital lease obligations with contractual maturities greater than one year. Other long term liabilities include estimated amounts for accrued early retirement benefits, compensated absences payable, refundable allowances on student loans and deferred revenue that will not be paid or earned within the next fiscal year.

## **Definition of Operating Activities**

Operating activities reported on the Statement of Revenues, Expenses and Changes in Net Assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenue



streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35, including state appropriations, gifts and investment income.

### Non-Vested Equipment

Capital assets include at June 30, 2004 and 2003, \$3,714,000 and \$3,219,000, respectively, of equipment purchased with restricted contract and grant proceeds for which title has not yet been transferred to the University.

### Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

## II. CASH DEPOSITS, INVESTMENTS, AND DEPOSITS WITH TRUSTEES

### Cash Deposits and Cash Equivalents

As of June 30, 2004 and 2003, the book balance of cash and cash equivalents totaled \$200,454,000 and \$210,345,000, respectively; and the bank balance of cash and cash equivalents totaled \$208,999,000 and \$218,122,000, respectively. Of the bank balances as of June 30, 2004, \$4,048,000 was covered by FDIC insurance or by the State Sinking Fund in accordance with the Code of Iowa and \$204,951,000 was uninsured and uncollateralized. Of the bank balances as of June 30, 2003, \$4,052,000 was covered by FDIC insurance or by the State Sinking Fund in accordance with the Code of Iowa and \$214,070,000 was uninsured and uncollateralized.

Included in Cash and Cash Equivalents, and as Deposits Held in Custody for Others, are \$7,340,000 and \$6,825,000 of funds belonging to the University of Northern Iowa as of June 30, 2004 and 2003, respectively. These funds are pooled by the two universities in order to achieve economies of scale.

### Investments

In accordance with the Code of Iowa, the University's operating portfolio may be invested in obligations of the U.S. government and its agencies, certificates of deposit, prime bankers' acceptances, commercial paper, repurchase agreements, investments authorized for the Iowa Public Employees Retirement System in Section 97B.7 of the Code of Iowa, and an open-end management investment company organized in trust form registered with the S.E.C. under the Investment Company Act of 1940. The University's endowment portfolio may invest in all of the above as well as certain listed investment grade securities, certain shares of investment companies and new issues of investment grade common stock. The University's endowments are pooled with the University of Northern Iowa's endowments to achieve economies of scale. At June 30, 2004 and 2003, the University included \$2,832,000 and \$2,844,000, respectively, held for the University of Northern Iowa as Investments and as a Deposit Held in Custody for Others.

For donor restricted endowments, Chapter 540A of the Code of the State of Iowa permits the University to spend endowment income and to appropriate within certain limitations an amount of realized and unrealized endowment appreciation as the University determines to be prudent considering the University's long-term and short-term needs, its present and anticipated financial requirements, expected total return on its investments, price level trends and general economic conditions. The University's policy is to retain the realized and unrealized appreciation with the endowment pursuant to the spending rules of the University. The University's spending rule is that five percent (5%) of market value of the endowment based on a rolling market average will be calculated and distributed.



# Notes to Financial Statements

June 30, 2004

Net appreciation of permanent endowment funds, which totaled \$8,028,000 and \$3,100,000 at June 30, 2004 and 2003, respectively, is available to meet spending rate distributions and is recorded in restricted nonexpendable net assets.

The University's investments at June 30, 2004 and 2003, are recorded at fair value, as determined by quoted market price, and are categorized by credit risk and type of investment. As defined by GASB Statement No. 3, the three types of credit risks are:

Category 1 - Insured or registered securities, with securities held by the University or its agent in the University's name.

Category 2 - Uninsured and unregistered securities, with securities held by the counter party's trust department or agent in the University's name.

Category 3 - Uninsured and unregistered securities, with securities held by the counter party or by its trust department or agent but not in the University's name. (This includes the portion of the carrying amount of any repurchase agreement that exceeds the fair value of the underlying securities.)

Investments held by the University at June 30, 2004 and 2003, were categorized as follows:

	Category		June 30, 2004	June 30, 2003
	1	2	Fair Value	Fair Value
			(in thousands)	
U.S. Government Securities	\$ 5,492	312,083	317,575	\$ 360,616
Common & Preferred Stocks	25,769	28,985	54,754	121,940
Corporate Notes and Bonds	3,850	146,113	149,963	129,679
	<u>\$ 35,111</u>	<u>487,181</u>	<u>522,292</u>	<u>612,235</u>
Mutual Funds			\$ 177,171	21,776
Other - Florida Orange Grove			\$ 51	51
			<u>\$ 699,514</u>	<u>\$ 634,062</u>

## Deposits with Trustees

Investments on deposit with trustees, paying and co-paying agents for the purpose(s) of paying current obligations of bond principal and interest, for holding Bond Reserve Funds or for holding Construction Funds as specified by bond resolutions at June 30, 2004 and 2003, totaled \$28,349,000 and \$11,784,000, respectively.

As authorized by the Board of Regents, the University holds a surety bond, with a face value of \$3,500,000, as a substitution for a portion of the balance in deposits with trustees required for debt service of the Utility System Revenue Bonds.



# Notes to Financial Statements

June 30, 2004

## III. ACCOUNTS RECEIVABLE, PLEDGES RECEIVABLE, DUE FROM GOVERNMENT AGENCIES AND NOTES RECEIVABLE

### Accounts Receivable

	University & Blended Component Units	UIHC & Affiliates (in thousands)	Total
Accounts Receivable	\$ 161,540	285,991	\$ 447,531
Allowance for Uncollectible Accounts, Indigent Patients and Contractual Adjustments	65,550	170,775	236,325
Accounts Receivable, Net June 30, 2004	\$ 95,990	115,216	\$ 211,206
Accounts Receivable	\$ 93,269 *	374,823	\$ 468,092
Allowance for Uncollectible Accounts, Indigent Patients and Contractual Adjustments	35,112 *	205,752	240,864
Accounts Receivable, Net June 30, 2003	\$ 58,157	169,071	\$ 227,228

\* Restated

### Pledge Receivables (Foundation)

A summary of the pledge receivables (unconditional promises to give) at June 30, 2004 and 2003 is as follows:

	2004 (in thousands)	2003 (in thousands)
Gross pledges receivable	\$ 91,683	\$ 109,195
Less present value discount 2004 \$16,178,000; 2003 \$23,745,000 and allowance for doubtful pledges 2004 \$2,402,000; 2003 \$2,861,000	18,580	26,606
	\$ 73,103	\$ 82,589

Pledges receivable at June 30, 2004 are expected to be collected in the following periods:

	Total (in thousands)
In one year or less	\$ 27,738
Between one year and five years	33,583
More than five years	30,362
	\$ 91,683

At June 30, 2004, Foundation donors have made conditional promises to give of \$3,335,000 to proposed building projects and University of Iowa programs. Conditional pledges are not recorded as pledges receivable.

### Due from Government Agencies

Due from government agencies at June 30, 2004 and 2003 are composed of \$10,558,000 and \$15,524,000, respectively, due from the State of Iowa and \$27,401,000 and \$15,679,000, respectively, due from United States governmental agencies.

# Notes to Financial Statements

June 30, 2004

## Notes Receivable

Current notes receivable at June 30, 2004 and 2003 are \$4,363,000 reported net of an allowance of \$180,000 and \$4,379,000 reported net of an allowance of \$224,000, respectively. Noncurrent notes receivable at June 30, 2004 and 2003 are \$35,061,000 reported net of an allowance of \$2,270,000 and \$34,816,000 reported net of an allowance of \$1,784,000, respectively.

## IV. CAPITAL ASSETS

Summaries of capital assets activity for the year ended June 30, 2004 are as follows:

	Beginning Balance *	Additions	Transfers	Retirements	Ending Balance
	(in thousands)				
Land	\$ 17,048	553	-	-	\$ 17,601
Construction in Progress	112,973	151,707	(105,332)	-	159,348
Art & Historical Collections	27,818	141	-	-	27,959
Library Materials	160,979	11,187	-	674	171,492
Land Improvements	14,665	-	2,271	-	16,936
Infrastructure	277,799	130	14,835	-	292,764
Buildings	1,317,378	136	88,226	5,421	1,400,319
Equipment	476,493	60,552	-	42,875	494,170
	<u>\$2,405,153</u>	<u>224,406</u>	<u>-</u>	<u>48,970</u>	<u>\$2,580,589</u>
Less Accum. Depreciation	(1,084,795)	(102,524)	-	(40,215)	(1,147,104)
Capital Assets, Net	<u>\$1,320,358</u>	<u>121,882</u>	<u>-</u>	<u>8,755</u>	<u>\$1,433,485</u>

\*Restated

## V. LONG-TERM LIABILITIES

Summaries of the changes in long-term liabilities for the year ended June 30, 2004 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
	(in thousands)				
Long term debt:					
Bonds payable	\$264,085	89,005	37,496	315,594	\$ 18,736
Notes payable	3,319	-	970	2,349	701
Capital leases payable	99,667	12,757	6,237	106,187	9,917
Total long term debt	<u>367,071</u>	<u>101,762</u>	<u>44,703</u>	<u>424,130</u>	<u>29,354</u>
Other long-term liabilities:					
Early retirement benefits payable	14,639	9,212	5,620	18,231	6,168
Compensated absences	82,119	49,021	45,166	85,974	47,286
Refundable allowances on student loans	24,267	400	-	24,667	-
Deferred revenue	29,241 *	31,431	29,241	31,431	31,431
Total other long-term liabilities	<u>150,266</u>	<u>90,064</u>	<u>80,027</u>	<u>160,303</u>	<u>84,885</u>
Total long-term liabilities	<u>\$517,337</u>	<u>191,826</u>	<u>124,730</u>	<u>584,433</u>	<u>\$ 114,239</u>

\* Restated



# Notes to Financial Statements

June 30, 2004

## Bonds Payable

Bonds have been sold to finance certain capital projects and are outstanding at June 30, 2004, as follows:

Bond Issues	Interest Rates	Fiscal Year	Amount (in thousands)
		Maturity Date Range	
Academic Building	3.00 - 8.38 %	1988 - 2021	\$ 59,884
Residence Services	3.00 - 6.25	1967 - 2025	65,980
Hospital	4.125 - 9.00	1978 - 2029	25,195
Recreation Building	5.50 - 6.00	1973 - 2009	550
Athletic Facilities	2.75 - 5.15	1994 - 2022	10,645
Telecommunications	2.00 - 5.40	1998 - 2016	27,590
Utility System	2.00 - 5.00	1996 - 2025	80,950
Iowa Memorial Union	2.50 - 3.60	2003 - 2010	3,785
Parking System	3.10 - 5.00	2001 - 2026	27,645
Center for University Advancement	4.75 - 5.40	1999 - 2013	10,790
Student Health Facility	3.60 - 4.75	1999 - 2013	2,580
Total			<u>\$ 315,594</u>

As of June 30, 2004, unspent bond proceeds were as follows: \$19,669,000, Utility System Revenue Bonds; \$4,138,000, Telecommunications Revenue Bonds; \$16,488,000, Parking System Revenue Bonds; \$2,788,000, Residence Services Revenue Bonds.

The bonds will mature as follows:

Year Ending June 30	Principal	Interest	Total
	(in thousands)		
2005	\$ 18,736	15,713	\$ 34,449
2006	19,334	15,291	34,625
2007	20,416	14,774	35,190
2008	21,159	14,035	35,194
2009	20,400	13,027	33,427
2010-2014	96,238	42,065	138,303
2015-2019	60,180	21,059	81,239
2020-2024	45,325	8,079	53,404
2025-2029	13,806	1,201	15,007
Total	<u>\$ 315,594</u>	<u>145,244</u>	<u>\$ 460,838</u>

As provided in the various bond resolutions, the University has the right to redeem certain bonds prior to the above maturity dates, under stated conditions.



# Notes to Financial Statements

June 30, 2004

## Notes Payable

A borrowing program, known as the Master Lease Plan, began in fiscal 1989 as approved by the Board of Regents to support the purchase of large, specialized pieces of equipment and selected real property. Interest rates range from 3.63% to 5.18%. The notes will mature as follows:

Year Ending June 30	Principal	Interest	Total
(in thousands)			
2005	\$ 701	101	\$ 802
2006	524	72	596
2007	549	47	596
2008	575	21	596
Total	\$ 2,349	241	\$ 2,590

## Capital Leases Payable

Capital leases outstanding at June 30, 2004, are as follows:

Capital Lease	Interest Rates	Lease Period	Amount
(in thousands)			
Medical Education and Biomedical Research Facility	3.13 - 5.38 %	1999 - 2023	\$ 51,405
John W. Eckstein Medical Research Building	4.875	2000 - 2005	5,075
Oakdale Research Park	7.28	2002 - 2016	8,276
Plaza Centre One	4.59	2002 - 2016	1,639
Roy J. and Lucille A. Carver Biomedical Research Building	2.00 - 4.75	2002 - 2028	24,435
Pomerantz Center, Series 2003	5.00	2004 - 2010	11,325
111 Church Street	5.17	2004 - 2007	539
Copy Machines and Other Equipment	3.17 - 14.25	2003 - 2009	3,493
Total			\$ 106,187

The following is a schedule, by year, of future minimum payments required.

Year Ending June 30	Principal	Interest	Total
(in thousands)			
2005	\$ 9,917	5,191	\$ 15,108
2006	4,787	4,771	9,558
2007	3,896	4,594	8,490
2008	4,472	4,399	8,871
2009	4,100	4,195	8,295
2010-2014	34,678	15,478	50,156
2015-2019	25,621	8,546	34,167
2020-2024	12,365	3,050	15,415
2025-2029	6,351	823	7,174
Total	\$ 106,187	51,047	\$ 157,234

Assets acquired under these capital leases had a net book value of \$115,781,000 as of June 30, 2004.



# Notes to Financial Statements

June 30, 2004

The capital leases identified as Medical Education and Research Facility, John W. Eckstein Medical Research Building, Roy J. and Lucille A. Carver Biomedical Research Building and Pomerantz Center, Series 2003 are with The University of Iowa Facilities Corporation (UIFC), a wholly owned subsidiary of The University of Iowa Foundation. UIFC has issued revenue bonds for these facilities that have as their sole source of repayment the proceeds of these capital leases.

## VI. OPERATING LEASES

The University has leased various buildings to house several departments of the University. These leases have been classified as operating leases. Accordingly, all rents are charged to expense as incurred. These leases expire from fiscal year 2005 to fiscal year 2012, and require various minimum annual rentals. Certain leases are renewable for additional periods. Some of the leases require the payment of normal maintenance and insurance on the properties. In most cases, management expects that the leases will be renewed or replaced by other leases.

The following is an annual schedule of future minimum rental payments required under operating leases, which have initial or remaining noncancellable lease terms in excess of one year as of June 30, 2004.

Year Ending June 30	Amount
	(in thousands)
2005	\$ 1,411
2006	723
2007	313
2008	182
2009	88
2010-2012	212
Total	<u>\$ 2,929</u>

All leases contain non-appropriation clauses indicating that continuation of the lease is subject to funding by the Iowa State Legislature.

Rental expense for the year ended June 30, 2004, for all operating leases, except those with terms of a month or less that were not renewed, totaled \$1,755,000.

## VII. RETIREMENT PROGRAMS

### Teachers Insurance and Annuity Association

The University contributes to the Teachers Insurance and Annuity Association (TIAA) retirement program, which is a defined contribution plan. TIAA administers the retirement plan for the University. The defined contribution retirement plan provides individual annuities for each plan participant. The Board of Regents establishes and amends the plan's provision and contribution requirements. As required by the Board of Regents policy, all eligible University employees must participate in a retirement plan from the date they are employed. Contributions made by both employer and employee vest immediately. As specified by the contract with TIAA, each employee through the fifth year of employment contributes 3 1/3% of the first \$4,800 of earnings and 5% on the balance of earnings. The University, through the fifth year of employment, is required to contribute 6 2/3% of the first \$4,800 of earnings and 10% on earnings above the \$4,800. Upon completion of five years of service, the participant contributes 5% and the University 10% on all earnings. During fiscal years



2004 and 2003, the University's required and actual contribution amounted to \$70,236,000 and \$69,184,000, respectively. Employees' required and actual contribution amounted to \$35,117,000 and \$34,587,000, respectively.

### **Iowa Public Employees Retirement System**

The University contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Plan members are required to contribute 3.7% of their annual covered salary and the University is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by State statute. The University's required contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$885,000, \$817,000 and \$734,000, respectively, equal to required contributions for each year. The required contribution paid by employees for the years ended June 30, 2004, 2003 and 2002 were \$569,000, \$526,000 and \$454,000, respectively.

## **VIII. POST-EMPLOYMENT BENEFITS**

### **Early Retirement**

An early retirement program was approved by the Board of Regents in June 1986, and modified on July 1, 1990, and in July 1992. In July 2001, the Board of Regents approved discontinuation of the program upon its expiration on June 30, 2002. The Board of Regents has authorized each institutional head to exercise discretion as to whether faculty and staff who are qualified at June 30, 2002, may have two years after expiration of the program to request participation. As of June 30, 2004, this program has expired. Eligible for participation are faculty, professional-scientific employees, institutional officials, staff of the Board Office and all merit system employees employed by the Board of Regents for a period of at least fifteen years and who have attained the age of 57. The employee's department head and the appropriate administrative officers must approve the employee's participation. The following benefits are applicable during participation in the Early Retirement Program:

1. Life Insurance - A paid-up life insurance policy of \$2,000 to \$4,000 equal to what the individual would have received if he/she had retired at the age of 65.
2. Health and Dental Insurance - The University will pay the full cost of the single employee premium for health and dental insurance or its standard share of any coverage other than single until the employee reaches eligibility for Medicare benefits. This contribution shall be equal to the amount contributed for an active employee in the same plan.
3. TIAA/CREF Contributions - During the first three years, the University will pay both the employer and employee retirement contributions. During the remaining years in the program, the university will pay only the employer contribution. Contributions are payable for a maximum of five years or until eligible for full Social Security benefits, whichever occurs first.
4. IPERS Contributions - The employee may only elect a lump sum payment.

The employee may elect, prior to approval of participation in the program, to accept the present value of all or part of the incentives, except life insurance, as a lump sum payment on the beginning date of participation in the program. The rate of interest used to calculate the present value is established annually by the Board of Regents. The rate used for the current fiscal year was 1.00%.



The University has recognized an early retirement benefit liability of \$18,231,000 as of June 30, 2004. During fiscal year 2004, expenditures for the 752 participants of the early retirement incentive program totaled \$5,620,000.

### Regular Retirement

For post-employment benefits of retirees, the University contributes toward the cost of University of Iowa health insurance and the entire cost to purchase a paid-up life insurance policy, which varies in amounts from \$2,000 to \$4,000, depending upon length of service.

Benefits are financed centrally by the institution on a pay-as-you-go basis. Total expenditures for fiscal year 2004 were \$1,788,000 with 1,163 eligible participants as of June 30, 2004.

### Termination

The University continues terminated employees' benefits for health, dental, vision and hearing aid insurance under the Consolidated Omnibus Budget Reconciliation Act of 1985, modified by the Tax Reform Act and the Budget Reconciliation Act of 1986.

Five hundred sixty-three (563) terminated employees continued their benefits by assuming total financial responsibility. No University costs are associated with the premiums, but claims are the responsibility of the University since the insurance plans are self-insured.

## IX. OTHER COMMITMENTS, CLAIMS, CONTINGENCIES AND ENCUMBRANCES

### Commitments

At June 30, 2004, the University had outstanding construction contract commitments of \$103,311,000.

### Claims

There were no material claims outstanding as of June 30, 2004.

### Contingencies

Following are risk financing and insurance related issues as defined by GASB Statement No. 10.

Property Loss - The University purchases catastrophic property insurance for academic/general funded facilities with a single incident deductible which, in the event of a claim, the State provides payment for pursuant to Chapter 29C.20 of the Code of Iowa. A contingent fund exists under Chapter 29C.20 of the Code of Iowa to provide compensation for loss or damage to state property. Claims over \$5,000 may be submitted to the State Executive Council for consideration. The University also purchases commercial property insurance for auxiliary enterprise facilities including athletics, utilities, parking, residence halls and family housing, laundry, printing, telecommunications, the Iowa Memorial Union, Virgil M. Hancher Auditorium and the University Health Center. As the result of changes within the insurance industry due to the terrorist attacks of 9/11/01, the University found it necessary to reduce its commercial insurance from approximately \$3.6 billion to \$500 million from September of 2002 through August of 2003. The University was able to increase this amount to \$750 million in September of 2003 and will maintain the \$750 million limit on September 2004.

Liability Loss - The State Appeal Board, subject to the advice and approval of the Attorney General, is authorized to settle tort liability claims against the State as set forth in Chapter 669 of the Code of Iowa. Tort liability claims settled in excess of \$5,000 must have the unanimous approval of all the members of the Appeal Board, the State Attorney General and the District Court of the State of Iowa for Polk County. By inter-agency agreement,



# Notes to Financial Statements

June 30, 2004

tort liability claims under \$5,000 may be administered by the University subject to a maximum expenditure of \$100,000 per year. All other tort claims may be paid from the State's general fund.

Motor Vehicle Liability - The Board of Regents' institutions cooperatively self-insure for automobile liability and physical damage coverage. The Board of Regents' self-insured program covers liability losses up to \$250,000 per claim. Claims over \$250,000 are self-insured by the State of Iowa, as provided in Chapter 669 of the Code of Iowa. Coverage for physical damage (comprehensive and collision) to University vehicles is included in the Board of Regents' self-insured program. Each loss is subject to a \$250 deductible.

Workers' Compensation - The University participates in a State self-funded program. The University pays a quarterly assessment for this coverage.

Unemployment Compensation - The University self-funds unemployment compensation claims received from Iowa Workforce Development on a reimbursement basis.

Fidelity/Crime Coverage - The State maintains an employee fidelity bond where the first \$100,000 in losses is the responsibility of the University. Under the State coverage, losses in excess of the \$100,000 deductible are insured up to \$2,000,000. The University maintains separate fidelity and crime coverage, which extends to all employees, and includes coverage for robbery and theft. The University's bond provides an additional \$8,000,000 in coverage over the state bond.

Student Health Insurance Program (SHIP) - This program provides coverage to all students for medical evacuation and repatriation of remains in the event of a student's death. Based on historical analysis, management has determined that there is a remote probability of loss as of June 30, 2004.

College of Medicine Faculty Malpractice Claims - Based on actuarial analysis, the College of Medicine has incurred a probable loss of \$13,047,000 as of June 30, 2004. The commercial malpractice coverage used by the University was terminated on December 31, 2002. For calendar year 2003 and from January 1, 2004, until May 26, 2004, the College of Medicine Faculty Practice Plan provided self-insurance up to \$5 million per claim with an annual aggregate limit of \$9 million. Beyond those limits, coverage will be provided by the State of Iowa as it indemnifies and defends state employees. From May 26, 2004 to June 30, 2004, the College of Medicine Faculty malpractice insurance coverage was provided by IMMIC, a wholly-owned captive insurance company. IMMIC provides \$2 million above a \$3 million self-insurance retention by the College of Medicine Faculty Practice Plan per claim with an annual aggregate limit of \$9 million.

Employee Medical and Dental Claims - The University purchases life, health, dental and disability insurance for eligible permanent employees. Based on actuarial analysis of employee medical and dental claims, the University has incurred but not reported claims of \$6,220,000 as of June 30, 2004.

## Reconciliation of Loss Contingencies -

	FY 2004	FY 2003
	(in thousands)	
Claims and contingent liabilities accrued at July 1	\$ 14,801	\$ 13,947
Claims incurred and contingent liabilities accrued for the current year	76,387	59,635
Payments on claims during the fiscal year	(71,921)	(58,781)
Claims liabilities at June 30	<u>\$ 19,267</u>	<u>\$ 14,801</u>



Insurance Settlements – For those risks that the University has purchased commercial insurance, settled claims have not exceeded the commercial coverage in any of the past three years.

### Encumbrances

According to Section 8.33 of the Code of Iowa, the University is permitted to carry encumbrances for specialized equipment and building repairs forward to the next fiscal year. Purchase orders and contracts on state appropriated funds totaling \$1,000 were outstanding at June 30, 2004.

## X. DEBT DEFEASANCE

In December of 2003, the University issued \$9,415,000 of Telecommunications Facilities Revenue Refunding Bonds, Series S.U.I. 2003, with an average interest rate of 2.853% and accrued interest of \$6,000 to advance refund \$9,860,000 of outstanding Telecommunications Facilities Revenue Bonds, Series S.U.I. 1995 with interest rates ranging between 4.55 and 5.10%.

Net bond proceeds of \$10,102,000 were placed in an irrevocable escrow account with the University as trustee. The escrow account is sufficient to fully service all remaining principal and interest due on the bonds. The Telecommunication Facilities Revenue Bonds, Series S.U.I. 1995 were called on January 1, 2004.

The advance refunding resulted in the recognition of an accounting gain of \$445,000; permitted the University to realize an economic gain (difference between present values of the old and new debt service payments) of \$727,000; and reduced the aggregate debt service payments by \$683,000 over the next eight years.

In May of 2004, the University issued \$6,695,000 of Academic Building Revenue Refunding Bonds, Series S.U.I. 2004, with an average interest rate of 3.884% and accrued interest of \$8,000 to advance refund \$5,735,000 of outstanding Academic Building Revenue Bonds, Series S.U.I. 1993 and \$915,000 of outstanding Academic Building Revenue Refunding Bonds, Series S.U.I. 1994 with interest rates ranging between 3.50 and 5.50%.

Net bond proceeds of \$6,749,000 were placed in an irrevocable escrow account with the University as trustee. The escrow account is sufficient to fully service all remaining principal and interest due on the bonds. The Academic Building Revenue Bonds, Series S.U.I. 1993 and Academic Building Revenue Refunding Bonds, Series S.U.I. 1994 are scheduled to be called on July 1, 2004.

The advance refunding resulted in the recognition of an accounting loss of \$45,000; permitted the University to realize an economic gain (difference between present values of the old and new debt service payments) of \$258,000; and reduced the aggregate debt service payments by \$255,000 over the next twelve years.

The amount of defeased debt outstanding but removed from the Statement of Net Assets at June 30, 2004, is as follows:

Bond Issues	Amount (in thousands)
Academic Buildings	\$ 6,685
Hancher Auditorium	1,500
Total Defeased Debt	<u>\$ 8,185</u>



# Notes to Financial Statements

June 30, 2004

## XI. OPERATING EXPENSES BY FUNCTION

A summary of operating expenses by functional classification for the year ended June 30, 2004 follows:

	Compensation and Benefits	Supplies	Services, Repairs & Goods Purchased for Resale (in thousands)	Depreciation	Total
Instruction	\$ 240,004	9,500	19,790	-	\$ 269,294
Research	172,943	27,091	17,084	-	217,118
Public service	28,831	4,199	10,745	-	43,775
Academic support	65,586	3,850	2,299	-	71,735
Patient services	369,536	155,434	139,159	-	664,129
Student services	16,911	1,133	5,973	-	24,017
Institutional support	41,120	3,513	14,708	-	59,341
Op. & maint. of plant	644	106	48,405	-	49,155
Scholarships & fellowships	17,372	-	3,789	-	21,161
Depreciation	-	-	-	102,524	102,524
Student loan write-offs, collections & admin	-	-	446	-	446
Auxiliary enterprises	56,859	12,070	40,095	-	109,024
Other operating expenses	-	-	2,040	-	2,040
Total Operating Expenses	\$ 1,009,806	216,896	304,533	102,524	\$ 1,633,759

## XII. RESTRICTED NET ASSETS

A summary of restricted net assets follows:

	June 30, 2004	June 30, 2003
	(in thousands)	
Restricted - nonexpendable:		
Permanent endowment	\$ 65,544	\$ 61,158
Restricted - expendable:		
Research and gifts	\$ 40,104	\$ 23,610
Student loans	27,445	21,560
Term endowments	24,654	23,819
Capital projects:		
Sinking	20,539	20,053
Construction	21,349	16,371
Reserve	27,864	29,750
Renewal & replacement	1,006	-
Unspent proceeds (less accounts payable)	62,304	52,059
Total	\$ 225,265	\$ 187,222





# Notes to Financial Statements

June 30, 2004

The Foundation's temporarily restricted net assets at June 30, 2004 and 2003 were restricted for the following:

	2004	2003
	(in thousands)	
Program support	\$ 106,894	\$ 93,105
Student aid	55,824	44,039
Faculty/staff support	70,106	54,937
Capital/equipment	40,050	47,813
Research	55,636	51,399
Remainder interest in trusts	25,422	22,679
	<u>\$ 353,932</u>	<u>\$ 313,972</u>

The Foundation's net assets during the years ended June 30, 2004 and 2003 were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence or passage of time.

The Foundation's permanently restricted net assets at June 30, 2004 and 2003 were restricted for the following:

	2004	2003
	(in thousands)	
Unrestricted	\$ 4,643	\$ 3,220
Perpetual trusts	5,783	5,088
Program support	47,219	43,743
Student aid	80,184	69,072
Faculty/staff support	100,032	91,543
Capital/equipment	9,465	9,397
Research	29,261	27,120
	<u>\$ 276,587</u>	<u>\$ 249,183</u>

## XIII. SUBSEQUENT EVENTS

In July of 2004, the Board of Regents approved the sale of \$9,595,000 in Center for University Advancement Revenue Refunding Bonds. The proceeds of the bonds will be used to call on July 1, 2005, in advance of maturity, \$9,845,000 of existing revenue bonds.

In August of 2004, the Board of Regents approved the terms of a capital lease with the University of Iowa Facilities Corporation (UIFC) that matched the terms of a \$25,000,000 Taxable Revenue Bond issue by UFC. The proceeds of the bond issue are to be used to defray a portion of the costs associated with the on-going construction of a building to house the administrative and research functions of the Roy J. and Lucille A. Carver College of Medicine Education.

In October of 2004, the Board of Regents approved the issuance of \$25,000,000 in Academic Building Revenue Bonds to finance the cost of the chemistry building renovation, Phase II of the art building renovation and fire safety projects on the campus of the University.



## XIV. PRIOR PERIOD ADJUSTMENT

Due to an error discovered during a review of the University's capital assets records, a net increase in the balance of capital assets, net of \$22,081,000 was accounted for as a prior period adjustment to the beginning balance of capital assets, net and invested in capital assets, net of related debt.

The University's implementation of GASB Statement No. 39 led to the exclusion of two entities (University of Iowa Research Foundation and University of Iowa Research Park Corporation) that had previously been included as blended component units in the financial statements. The result of excluding these two entities was a decrease to net assets of \$4,799,000, which was accounted for as a prior period adjustment to the appropriate asset, liability and net asset balances.

## XV. SEGMENT INFORMATION

A segment represents identifiable activities for which one or more revenue bonds or other revenue-backed debt is outstanding. Investors in those bonds rely solely on the revenue generated by the individual activities for repayment. The University's segments are described as follows:

### Telecommunications Facilities Revenue Bonds

The Telecommunications Facilities Revenue Bond Funds were created to defray the costs of constructing, equipping, furnishing and improving the telecommunications facilities of the University. The revenues pledged to these bonds come from charges assessed to the users of the telecommunications facilities.

### Utility System Revenue Bonds

The Utility System Revenue Bond Funds were created to defray additional costs to construct, equip and furnish the utility system of the University. The revenues pledged to these bonds come from charges assessed to the users of the utility system.

### Student Health Facility Revenue Bonds

The Student Health Facility Revenue Bond Funds were created to defray the costs of constructing, improving and equipping a student health center at the University. The revenues pledged to these bonds consist of student fees and charges.

### Recreation Building Revenue Bonds

The Recreation Building Revenue Bond Funds were created to defray the costs of the construction, operation and maintenance of a recreation building at the University. The revenues pledged to these bonds consist of student fees and charges.

### Hospital Revenue Bonds

The Hospital Revenue Bond Funds were created to defray the costs of various construction and renovation projects at the University of Iowa Health Center. The revenues pledged to these bonds consist of charges to patients for medical services.

### Center for University Advancement Revenue Bonds

The Center for University Advancement Revenue Bond Funds were created to defray the costs of constructing, furnishing and equipping a building to be used as the Center for



# Notes to Financial Statements

*June 30, 2004*

University Advancement at the University. The revenues pledged to these bonds are rental payments received from the University of Iowa Foundation for the use of the building.

## Athletic Facilities Revenue Bonds

The Athletic Facilities Revenue Bond Funds were created to defray the costs of constructing and equipping certain athletic and recreational buildings and facilities at the University. The revenues pledged to these bonds are generated by student fees, tickets sold to athletic events and concessions at athletic events.

## Residence Services Revenue Bonds

The Residence Services Revenue Bond Funds were created to defray additional costs of constructing, improving and maintaining various residence halls and related facilities at the University. The revenues pledged to these bonds are generated by fees paid by users of the residence halls' services.

## Parking System Revenue Bonds

The Parking System Revenue Bond Funds were created to defray additional costs of constructing, improving and equipping various parking facilities at the University. The revenues pledged to these bonds are generated by fees paid by users of the parking facilities.

## Iowa Memorial Union (IMU) Revenue Bonds

The Iowa Memorial Union (IMU) Revenue Bond Funds were created to defray the cost of alterations and improvements to the IMU at the University. The revenues pledged to these bonds are generated by fees paid by users of the IMU and from student fees.



# Notes to Financial Statements

June 30, 2004

	Telecomm. Facilities Revenue Bonds	Utility System Revenue Bonds	Student Health Facility Revenue Bonds	Recreation Building Revenue Bonds
<b>CONDENSED STATEMENT OF NET ASSETS</b>				
Assets:				
Current assets	\$ 10,975	19,095	2,951	202
Noncurrent assets	2,961	5,991	367	135
Capital assets	28,316	89,680	5,996	6,510
Total assets	42,252	114,766	9,314	6,847
Liabilities:				
Current liabilities	5,291	5,509	658	131
Noncurrent liabilities	25,245	77,215	2,345	450
Total liabilities	30,536	82,724	3,003	581
Net Assets:				
Invested in capital assets, net of related debt	726	8,730	3,416	5,960
Restricted - expendable	7,928	22,689	602	235
Unrestricted	3,062	623	2,293	71
Total net assets	\$ 11,716	32,042	6,311	6,266
<b>CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS</b>				
Operating revenues	\$ 17,200	49,038	4,926	280
Operating expenses	(12,968)	(35,416)	(4,524)	(152)
Depreciation expense	(6,686)	(5,201)	(339)	(532)
Net operating income (loss)	(2,454)	8,421	63	(404)
Nonoperating revenues (expenses)	(892)	(2,155)	(43)	(25)
Transfers from/(to) University funds	156	(6,197)	0	38
Change in net assets	(3,190)	69	20	(391)
Net assets, beginning of year*	14,906	31,973	6,291	6,657
Net assets, end of year	\$ 11,716	32,042	6,311	6,266
<b>CONDENSED STATEMENT OF CASH FLOWS</b>				
Net cash provided (used) by operating activities	\$ (1,180)	(38,913)	778	181
Net cash provided (used) by noncapital financing activities	-	-	-	-
Net cash provided (used) by capital and related financing activities	5,536	36,610	(370)	(128)
Net cash provided (used) by investing activities	(931)	411	1,680	5
Net increase (decrease) in cash	3,425	(1,892)	2,088	58
Cash & Cash Equivalents, beginning of year*	4,659	(370)	665	279
Cash & Cash Equivalents, end of year	\$ 8,084	(2,262)	2,753	337

\*Prior year restated



# Notes to Financial Statements

June 30, 2004

	Hospital Revenue Bonds	Center for University Advancement Revenue Bonds	Athletic Facilities Revenue Bonds
<b>CONDENSED STATEMENT OF NET ASSETS</b>			
Assets:			
Current assets	\$ 208,087	1,269	12,154
Noncurrent assets	328,399	1,601	862
Capital assets	403,954	15,645	31,599
Total assets	940,440	18,515	44,615
Liabilities:			
Current liabilities	120,127	1,254	12,503
Noncurrent liabilities	36,985	9,845	9,460
Total liabilities	157,112	11,099	21,963
Net Assets:			
Invested in capital assets, net of related debt	368,227	4,855	20,954
Restricted - expendable	15,348	2,561	2,047
Unrestricted	399,753	-	(349)
Total net assets	\$ 783,328	7,416	22,652
<b>CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS</b>			
Operating revenues	\$ 638,515	-	16,504
Operating expenses	(589,367)	(30)	(6,433)
Depreciation expense	(42,663)	(902)	(1,689)
Net operating income (loss)	6,485	(932)	8,382
Nonoperating revenues (expenses)	11,645	(558)	(242)
Transfers from/(to) University funds	(1,159)	1,429	(5,862)
Change in net assets	16,971	(61)	2,278
Net assets, beginning of year*	766,357	7,477	20,374
Net assets, end of year	\$ 783,328	7,416	22,652
<b>CONDENSED STATEMENT OF CASH FLOWS</b>			
Net cash provided (used) by operating activities	\$ 117,711	1,429	2,881
Net cash provided (used) by noncapital financing activities	(1,159)	-	-
Net cash provided (used) by capital and related financing activities	(79,503)	(1,474)	(1,752)
Net cash provided (used) by investing activities	(37,132)	17	1,711
Net increase (decrease) in cash	(83)	(28)	2,840
Cash & Cash Equivalents, beginning of year*	5,959	1,283	9,184
Cash & Cash Equivalents, end of year	\$ 5,876	1,255	12,024

\*Prior year restated

# Notes to Financial Statements

June 30, 2004

	Residence Services Revenue Bonds	Parking System Revenue Bonds	IMU Revenue Bonds
<b>CONDENSED STATEMENT OF NET ASSETS</b>			
Assets:			
Current assets	\$ 23,358	26,881	1,932
Noncurrent assets	6,349	2,671	484
Capital assets	87,216	34,244	4,231
Total assets	<u>116,923</u>	<u>63,796</u>	<u>6,647</u>
Liabilities:			
Current liabilities	8,050	1,534	1,932
Noncurrent liabilities	63,655	27,225	3,175
Total liabilities	<u>71,705</u>	<u>28,759</u>	<u>5,107</u>
Net Assets:			
Invested in capital assets, net of related debt	23,561	6,599	446
Restricted - expendable	9,094	19,623	1,094
Unrestricted	12,563	8,815	-
Total net assets	<u>\$ 45,218</u>	<u>35,037</u>	<u>1,540</u>

## CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Operating revenues	\$ 37,119	11,386	28,069
Operating expenses	(28,795)	(7,563)	(27,103)
Depreciation expense	(3,777)	(1,967)	(461)
Net operating income (loss)	<u>4,547</u>	<u>1,856</u>	<u>505</u>
Nonoperating revenues (expenses)	(2,075)	(192)	(105)
Transfers from/(to) University funds	143	(458)	64
Change in net assets	<u>2,615</u>	<u>1,206</u>	<u>464</u>
Net assets, beginning of year*	42,603	33,831	1,076
Net assets, end of year	<u>\$ 45,218</u>	<u>35,037</u>	<u>1,540</u>

## CONDENSED STATEMENT OF CASH FLOWS

Net cash provided (used) by operating activities	\$ (15,336)	(14,848)	686
Net cash provided (used) by noncapital financing activities	-	-	-
Net cash provided (used) by capital and related financing activities	29,791	30,567	(740)
Net cash provided (used) by investing activities	640	1,725	12
Net increase (decrease) in cash	<u>15,095</u>	<u>17,444</u>	<u>(42)</u>
Cash & Cash Equivalents, beginning of year*	12,208	4,527	(3,847)
Cash & Cash Equivalents, end of year	<u>\$ 27,303</u>	<u>21,971</u>	<u>(3,889)</u>

\*Prior year restated



## **Acknowledgments**

Report prepared by The Department of Accounting Services

Todd Stewart, Director

Tracy Rew, Administrative Accountant

Cory Hall, Senior Accountant

Sarah Morey, Senior Accountant

Dianne Plummer, Account Specialist

Steve Romont, Associate Director

Dan Nugent, Administrative Accountant

Linda McNiel, Senior Accountant

Amy Welter, Senior Accountant

Bob Schaaf, Clerk IV

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